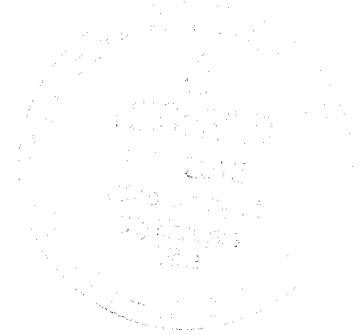




**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
FAX (615) 741-5986**



December 14, 2012

Honorable Dennis Phillips, Mayor
City of Kingsport
225 West Center Street
Kingsport, TN 37660

Dear Mayor Phillips:

This letter acknowledges receipt on December 12, 2012, of a request to review a plan of refunding (the "Plan") for the issuance of an amount not to exceed \$43,250,000 General Obligation Refunding Bonds, Series 2013 (the "2013 Refunding Bonds"). The 2013 Refunding Bonds will refund by competitive sale, an estimated:

- \$3,800,000 General Obligation Refunding Bonds, Series 2004 (the "2004 GO Bonds");
- \$4,400,000 Water and Sewer Revenue and Tax Refunding Bonds, Series 2004 (the "2004 W&S Bonds");
- \$1,295,000 General Obligation Bonds, Series 2005 (the "2005 GO Bonds");
- \$1,990,000 Water and Sewer Revenue and Tax Refunding Bonds, Series 2005 (the "2005 W&S Bonds");
- \$9,205,000 General Obligation School and Public Improvement Bonds, Series 2006 (the "2006 GO Bonds");
- \$1,080,000 Water and Sewer Revenue and Tax Bonds, Series 2006 (the "2006 W&S Bonds");
- \$735,426 Drinking Water State Revolving Fund Loan Agreement, Loan DWF 98-009 (the "98 DWF Loan");
- \$949,364 Wastewater State Revolving Fund Loan Agreement, Loan SRF 98-119 (the "98 SRF Loan");
- \$1,177,062 Wastewater State Revolving Fund Loan Agreement, Loan SRF 99-123 (the "99 SRF Loan");
- \$1,264,510 Wastewater State Revolving Fund Loan Agreement, Loan CWSRF 2007-200 (the "07 CWSRF Loan");
- \$17,761,817 Wastewater State Revolving Fund Loan Agreement, Loan SRF 07-197 (the "07 SRF Loan");
- and
- \$1,247,560 Wastewater State Revolving Fund Loan Agreement, Loan CGA 09-240 (the "09 CGA Loan").

The 2005 GO Bonds, 2005 W&S Bonds, 2006 GO Bonds, and 2006 W&S Bonds will be advance refunded, the 2004 GO Bonds, 2004 W&S Bonds, 2006 GO Bonds, 2006 W&S Bonds, 98 DWF Loan, 98 SRF Loan, 99 SRF Loan, 07 CWSRF Loan, 07 SRF Loan, and 09 CGA Loan will be current refunded. These are collectively the "Refunded Bonds."

Pursuant to the provisions of Title 9, Chapter 21, Tennessee Code Annotated, a plan must be submitted to our Office for review prior to the adoption of a resolution by the governing body of a local government authorizing

the issuance of refunding Notes secured, in whole or in part, by the full faith and credit and unlimited taxing power of the City. The information presented in the Plan includes the assertions of the City and may not reflect either current market conditions or market conditions at the time of sale.

CITY'S PROPOSED REFUNDING OBJECTIVE

The 2013 Refunding Bonds are being issued for debt service savings. The Plan estimates net present value savings of \$2,276,202 or 5.08% of the refunded principal.

COMPLIANCE WITH THE CITY'S DEBT MANAGEMENT POLICY

The City provided a copy of its debt management policy. A specific description of how the debt complies with the City's debt policy should be included on the form CT-0253 to be submitted within 45 days of issuance of the debt approved in this letter. If the most current version is on file with this office a copy does not have to be submitted.

REPORT OF THE REVIEW OF A PLAN OF REFUNDING

Distribute this letter and the enclosed report of the review of the Plan to the members of the governing body as required by Tennessee Code Annotated Section 9-21-903.

This letter, report, and the Plan are to be posted on the City's website. The same report is to be provided to each member of the City Commission and reviewed at the Public Meeting at which the proposed refunding bond resolution will be presented.

The enclosed report does not constitute approval or disapproval for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the outstanding obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity.

This letter and the enclosed report do not address the compliance with federal tax regulations and are not to be relied upon for that purpose. The City should discuss these issues with a bond counsel.

This report is effective for a period of one hundred twenty (120) days. If the refunding has not been completed during this time, a supplemental plan of refunding must be submitted to this Office, at that time we will issue a report thereon pursuant to the statutes. In lieu of submitting a supplemental plan, a statement may be submitted to our Office after the 120-day period has elapsed stating that the information contained in the current plan of refunding remains valid. Such statement must be submitted by either the Chief Executive Officer or the Chief Financial Officer of the local government. We will acknowledge receipt of such statement and will issue our letter confirming that this refunding report remains valid for an additional 120-day period. However, with regard to the report currently being issued by this Office, during the initial 120-day period or any subsequent 120-day period no refunding reports will be issued relating to the debt obligations indicated herein as being refunded unless the Chief Executive Officer or the Chief Financial Officer notifies our Office that the plan of refunding which has been submitted is no longer valid.

We recognize that the information provided in the plan submitted to our Office is based on preliminary analysis and estimates, and that actual results will be determined by market conditions at the time of sale of the debt obligations. However, if it is determined prior to the issuance of these obligations that the actual results will be significantly different from the information provided in the plan which has been submitted, and the local government determines to proceed with the issue, our Office should subsequently be notified by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences, and that the local government was aware of the differences and determined to proceed with the issuance of the debt obligations. Notification to our Office will be necessary only if there is an increase or decrease of greater than

fifteen percent (15%) in any of the following: (1) the principal amount of the debt obligations issued; (2) the costs of issuance; (3) the cumulative savings or loss with regard to any refunding proposal. We consider this notification necessary to insure that this Office and officials of the local government are aware of any significant changes that occur with regard to the issuance of the proposed indebtedness.

PUBLIC DEBT ENTITY REPORT

Enclosed is a revised Form CT-0253 - Report on Debt Obligation. The Form CT-0253 must be filed with the governing body of the public entity issuing the debt not later than forty-five (45) days following the issuance or execution of a debt obligation by or on behalf of any public entity, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance either by mail to the address on this letterhead or by email to the address below. No public entity may enter into additional debt if it has failed to file the Report on Debt Obligation.

StateandLocalFinance.PublicDebtForm@cot.tn.gov

Sincerely,



Mary-Margaret Collier
Director of the Office of State & Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT
Mr. James Demming, CFO, City of Kingsport
Mr. Rick Dulaney, RAYMOND JAMES | Morgan Keegan
Mr. Steven McCoy, RAYMOND JAMES | Morgan Keegan
Ms. Cindy Barnett, Esq., Adams and Reece

Enclosures (2): Report of the Director of the Office of State & Local Finance, State Form CT-0253, Report on Debt Obligation.

**REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE
CITY OF KINGSPORT, TENNESSEE
CONCERNING THE PROPOSED ISSUANCE OF ITS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013**

The City of Kingsport (the "City") submitted a plan of refunding (the "Plan"), as required by Tennessee Code Annotated Section 9-21-903 regarding the issuance of not to exceed \$43,250,000 General Obligation Refunding Bonds, Series 2013 (the "2013 Refunding Bonds"). The 2013 Refunding Bonds will refund by competitive sale, an estimated:

- \$3,800,000 General Obligation Refunding Bonds, Series 2004 (the "2004 GO Bonds");
- \$4,400,000 Water and Sewer Revenue and Tax Refunding Bonds, Series 2004 (the "2004 W&S Bonds");
- \$1,295,000 General Obligation Bonds, Series 2005 (the "2005 GO Bonds");
- \$1,990,000 Water and Sewer Revenue and Tax Refunding Bonds, Series 2005 (the "2005 W&S Bonds");
- \$9,205,000 General Obligation School and Public Improvement Bonds, Series 2006 (the "2006 GO Bonds");
- \$1,080,000 Water and Sewer Revenue and Tax Bonds, Series 2006 (the "2006 W&S Bonds");
- \$735,426 Drinking Water State Revolving Fund Loan Agreement, Loan DWF 98-009 (the "98 DWF Loan");
- \$949,364 Wastewater State Revolving Fund Loan Agreement, Loan SRF 98-119 (the "98 SRF Loan");
- \$1,177,062 Wastewater State Revolving Fund Loan Agreement, Loan SRF 99-123 (the "99 SRF Loan");
- \$1,264,510 Wastewater State Revolving Fund Loan Agreement, Loan CWSRF 2007-200 (the "07 CWSRF Loan");
- \$17,761,817 Wastewater State Revolving Fund Loan Agreement, Loan SRF 07-197 (the "07 SRF Loan"); and
- \$1,247,560 Wastewater State Revolving Fund Loan Agreement, Loan CGA 09-240 (the "09 CGA Loan").

The 2005 GO Bonds, 2005 W&S Bonds, 2006 GO Bonds, and 2006 W&S Bonds will be advance refunded, the 2004 GO Bonds, 2004 W&S Bonds, 2006 GO Bonds, 2006 W&S Bonds, 98 DWF Loan, 98 SRF Loan, 99 SRF Loan, 07 CWSRF Loan, 07 SRF Loan, and 09 CGA Loan will be current refunded. These are collectively the "Refunded Bonds."

The Plan was prepared with the assistance of the City's municipal advisor, RAYMOND JAMES | Morgan Keegan. The City provided a copy of its debt management policy.

Refunding Analysis

- The results for the refunding are based on the assumption that the estimated \$42,710,000 Series 2013 Refunding Bonds will be sold through competitive sale and priced with an estimated premium of \$4,742,412.
- Estimated net present value savings is \$2,276,202 or 5.08% of the refunded principal.
- The savings are achieved by issuing the 2013 Refunding Bonds at a premium and at more favorable interest rates in the current market.
- The proposed 2013 Refunding Bonds do not extend the maturity schedule of the Refunded Bonds.
- Estimated cost of issuance of the 2013 Refunding Bonds is \$470,325 or \$11.01 per \$1,000 of par amount for the 2013 Refunding Bonds.

The City has identified RAYMOND JAMES | Morgan Keegan as its municipal advisor. Municipal Advisors have a fiduciary responsibility to you, the issuer. Underwriters have no fiduciary responsibility to you. They represent the interests of their firm.

This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office for the Plan or a determination that a refunding is advantageous or necessary nor that any of the refunded obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity. This report is based on information as presented in the Plan by the City. The assumptions included in the City's Plan may not reflect either current market conditions or market conditions at the time of sale.

This report does not provide broad approval to refund the 2013 Refunded Bonds in a bond issue other than the proposed 2013 Refunding Bonds. If all of the Refunded Bonds are not refunded as a part of the 2013 Refunding Bonds, then a new plan will have to be submitted to this Office for review.



Mary-Margaret Collier
Director of the Office of State and Local Finance
Date: December 14, 2012